



**USAID** | **MACEDONIA**  
FROM THE AMERICAN PEOPLE

THE  
COMPETITIVENESS  
PROJECT

## USAID MACEDONIA COMPETITIVENESS PROJECT

*How to increase companies' competitiveness  
through successful access to finance*

**MCP's Financial Platform – a success story on the Balkans**

*6<sup>th</sup> Annual Event on Competitiveness, Finance and Economic Growth*

*May 17-19, 2011, Budapest*



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## **Issues identified: demand & supply side**

*Pilot phase June-Sept. 2008*

- (1) Limited offer of bankable projects & Limited A2F by companies due to:**
  - Poor managerial skills
  - Lack of know how in corporate financing
  - Low quality of financial reports leading to low creditworthiness of companies
  - Lack of vision and strategic management
  
- (2) Low level of domestic investment financed by FI's due to:**
  - High collateral requirement
  - Better bargaining position- low risk investments
  - Lack of expertise for Project financing
  - New products introduced but underused
  
- (3) Asymmetric information flow between supply and demand side**



## Two straightforward solutions

### ■ MATCHMAKING EVENTS

- Bridging the gap of asymmetric information flow
- debt fin. matchmaking events and equity brunches

### ■ FINANCIAL FACILITATORS

- Providing financial consultants on cost-share basis



## Results February 2009 – May 2011

**Total companies educated on new financial products: over 400**

**Got direct assistance to access finance: over 200 companies**

**Accessed finance: 129 access 57,1 mil. US\$**

**Totally invested by 129 companies: 91.7 mil. US\$**

**Increase in exports: 42.8 mil. US\$**

**New jobs created: 1379**

**Donor financing leveraged - 1\$ : 320 US\$**

**Pool of consultants – over 25 and further expanding**



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LOCAL  
GOVERNMENTS

BUSINESS ASS. &  
CLUSTERS

OTHER USAID  
PROJECTS

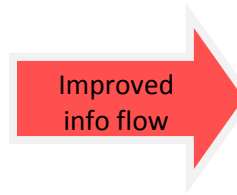
OTHER  
DONORS

**USAID MCP  
FINANCIAL PLATFORM ECO-SYSTEM**

FINANCIAL  
INSTITUTIONS



MATCH-  
MAKING  
EVENTS



FINANCIAL  
FACILITATORS



- Rely on FF for projects
- Refer companies to FF
- Promote through events
- New clients



COMPANIES

- Improved knowledge of fin. products
- Importance of fin. consultant & CFOs
- Grow their business

- Improved knowledge on fin. products available
- Personal communication with financial institutions
- Banks refer them to companies
- New clientele / companies
- EU FUNDS



## **KEY TO SUCCESS: FINANCIAL FACILITATORS**

- *Over 25 financial facilitators assisting companies in identifying and developing investment proposals on cost-share basis*
- *Further improvement of FF services by training provided by MCP (CMC, M&A, Leasing etc)*



## The “hidden value of FF” \*

- **Financial engineering crucial - determining the *right mix of products***

*e.g. When no other FI would support them, financial engineering plays a crucial role –(see case studies in the back of this power point)*

- Leaseback*
- Forfeiting*
- Equity ...*

- **Access to finance: *BACK DOOR* entrance for *management consulting***

*\*see expanded power point for case studies*



# MCP'S FINANCIAL PLATFORM GOING REGIONAL

- *PFS & RCI's regional activity on A2F*
- *CEED Macedonia & EBRD TAM/BAS with MCP'S support build on the achievements of MCP FP*
- **RESOLVING THE CHALLENGES BEHIND SUSTAINABILITY**



## **MCP FP Lessons learned**

- Equity finance – why it doesn't work?
- Facilitation of loans – why is it needed?
- Training of FF to ensure quality
- Close cooperation with FI's
- **KEY** – the person factor



## MAIN CHALLENGE –SUSTAINABILITY

### Establishing Market for Financial Advisor Services

#### **MCP's role and merit in developing a sustainable model:**

- MCP's cost-share – carrot
  - companies are more willing to work with FF when a donor cost-shares the fee and guarantees the quality
- MCP's trainings – insure quality
  - facilitators gain knowledge and understanding about what they do
- MCP's PR activities –build the business and image
  - both among the companies and the financial institutions, FF get recognition for their work
- END RESULT
  - slowly but securely a market is established for the FF



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# **USAID MACEDONIA COMPETITIVENESS PROJECT**

***QUESTIONS DURING OR AFTER SESSION ARE  
WELCOMED***

**THANK YOU!**

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## **Case Study#1 Financial engineering:** *determining the right mix of products*

- Early 2008 - apparel company X decides to invest in a new facility
- Commercial bank Y supports them and approves 2 mil. euro loan
- Financial crisis hits, Y withdraws support without notice
- X needs 100,000 euro to pay off subcontractors
- X can not pay Y and keep operating at normal level
- X uses capital from cash flow to pay off subcontractors
- As a result, X has no working capital & slows down activity
- Decreased activity results with inability to pay monthly installments to Y
- Y threatens to activate mortgage
- Over 250 workers are on the verge of losing their jobs
- MCP's FF steps in and assists X



# Case Study#1: Financial engineering

## *determining the right mix of products (cont.)*

MCP's FF steps in:

- ❑ Screens X to determine the level of financial distress
- ❑ Concludes that X has good potential for growth once the financial distress is mitigated
- ❑ Facilitator offers lease back options for the vehicles and equipment
- ❑ Facilitator matches X with leasing company
- ❑ Leasing company provides working capital by leasing back the equipment and activating DCA (USAID guarantee fund)
- ❑ FF works with X to restructure the loan i.e. get a loan from a more favorable credit line subsidized by the government at 5.5 % interest
- ❑ FF provides further financing by matching X to another FI offering Purchase order financing



## Case Study#2: Financial engineering: *equity financing*

- In 2005 local businessmen buys and restarts old paper mill factory
- Company continues to produce paper from pulp
- In 2008 manager decides to go from offset paper to recycled paper
- In 2009, 2 more partners from Macedonia invest in the company (JV)
- In 2009 factory is operational with plans for a new production line
- Idea is to complete the production circle by producing cardboard boxes
- Banks support them so far,
- But installation of new equipment takes 1 year
- Banks do not support them for the purchase of the new technology



## Case Study#2: Financial engineering: *equity financing (cont.)*

- Company had been working with FF since 2008
- The analysis he provided did not help them get the needed loan in 2009
- But...
- It helped them get a new Croatian partner
- Croatian partner buys the new technology (1 mil. Euro equity)
- Croatian partner provides large size of the market for the goods (boxes)
- All Macedonian exporters of fruit and vegetables benefit
- Large import substitution
- Continue work with FF – currently assist them to get more working capital
- Ultimately - company is to hire CFO



## **Case Study# 3: From Financial Engineering to Management Consulting**

- A leading welding company exporting products and services to EU
- Needed new facility to resolve production bottleneck
- Company is approached by EBRD
- EBRD instructs them to work with a consultant on the “packaging”
- Company starts working with FF
- Analysis showed that investment will double production & improve quality
- FF assists company in negotiations with EBRD
- EBRD’s offer proves to be less favorable than the one of other FI’s
- FF continues assisting company to find funds elsewhere when crisis hits
- Both company and consultant agree not to move forward with plan



## **Case Study#3: From Financial Engineering to Management Consulting (cont.)**

- A2F in this case is just the “entrance” to the company
- With FF assistance, company managers and owners learn more about:
  - How to better control productivity
  - How to increase productivity
  - How to calculate and control profitability by production line
  - How to redefine pricing model for the company

Ultimately company with FF’s assistance:

- Defines long term business strategy
- Introduces management control systems



# Sustainability: Establishing Market for Financial Advisor Services

## **Main challenges - companies**

- Not willing to pay cost-share
  - WHY? “used to getting it for free”
- Doubtful about quality of services
  - WHY? “past experience”
- Do not see benefit or value add
  - WHY ? “way banks operated before the financial crisis”



## Sustainability: Establishing Market for Financial Advisor Services *(cont.)*

### **Main challenges - consultants**

- Not focused only on this service
  - WHY? “making a living out of it without donor support is impossible”
- Would rather work on other “bread and butter” donor financed projects
  - WHY? “secured revenue on short term basis”
- Identification of the right people willing to invest and develop the profession and the market



# MAIN CHALLENGE –SUSTAINABILITY

Establishing Market for Financial Advisor Services

## **MCP's role and merit in developing a sustainable model**

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